Regional Trading Agreements

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What are RTAs?

Regional Trading Agreements (RTAs) are reciprocal trade agreements between two or more partners, according to WTO

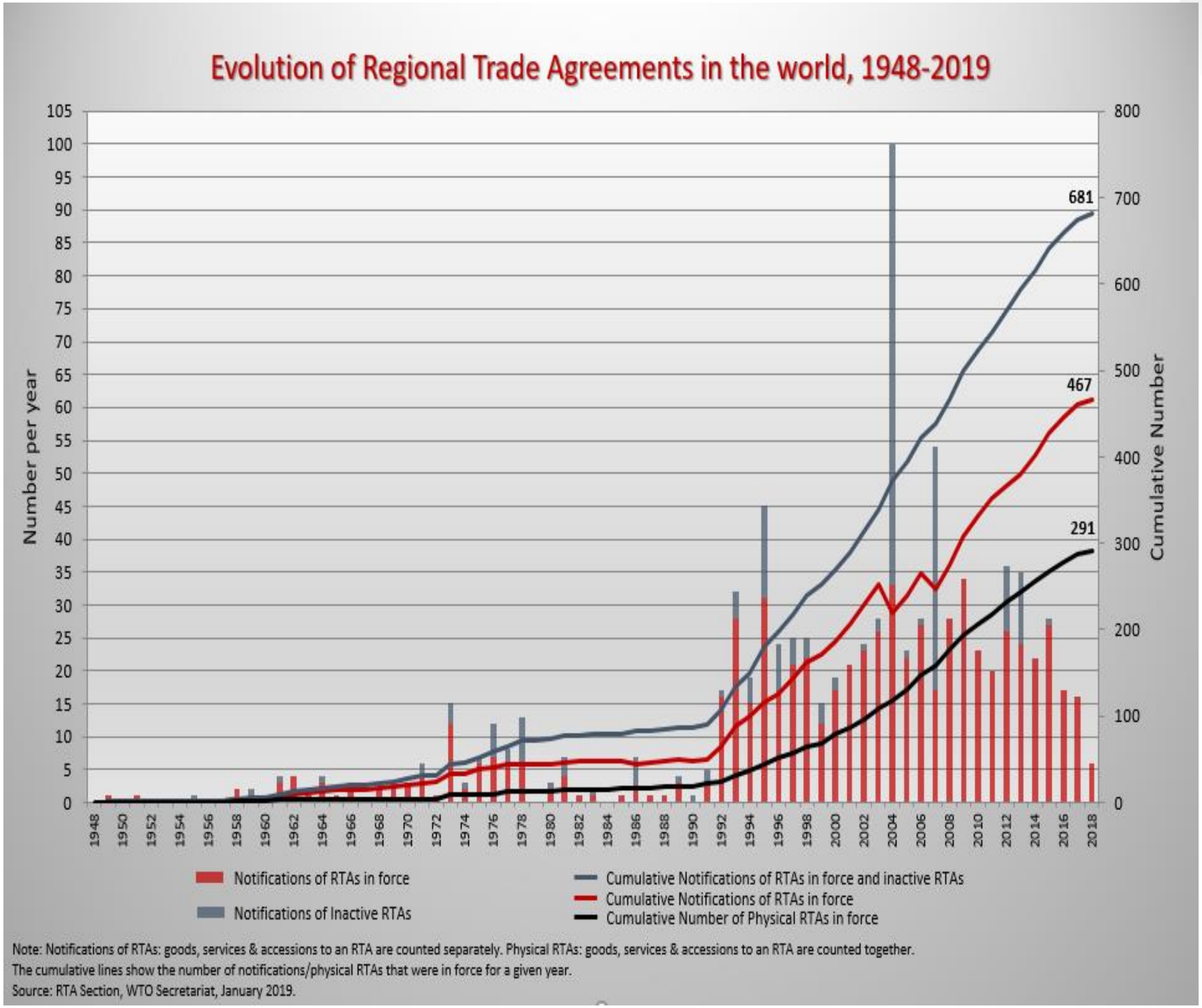
- Regional economic integration connotes deepening of intra-regional trade, expansion of mutual FDI and harmonization of commercial regulations, standards and practices
- A wide range of spectrum of arrangements, varying from preferential trading areas to free trade areas, to customs union, to common markets and to economic union covered in its ambit.

Trends in RTAs (1/2)

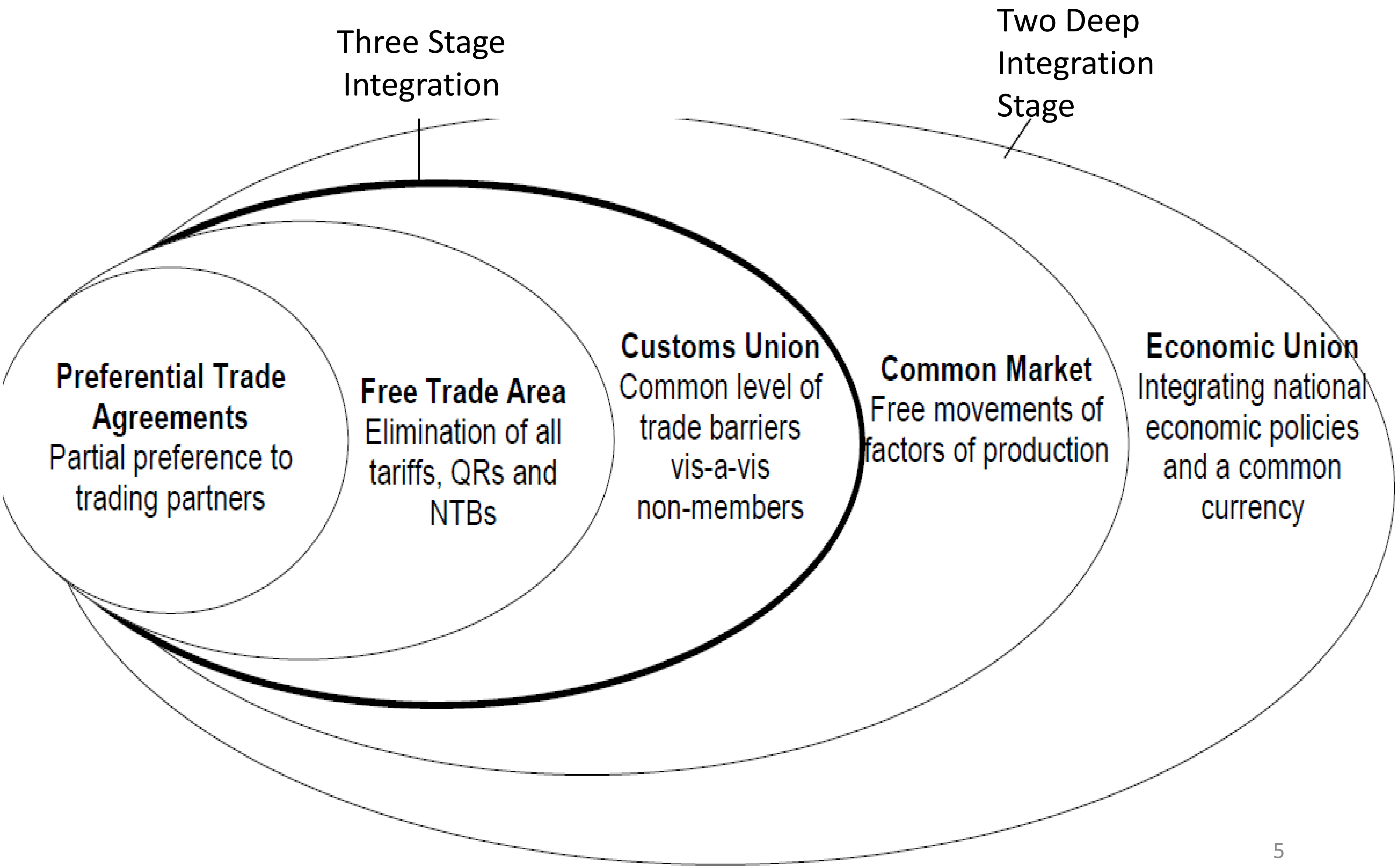
- Increasing prevalence of the Regional Trading Agreements (RTAs) since the mid 1990s, a remarkable development in the world trading system
- Though significant structural differences in various RTAs but a common thread across these RTAs is reducing barriers to trade between Member countries
- The number of RTAs notified is 681*, of which 291 are in force.

** As of 5 May 2019*

Rising Trend in RTAs (2/2)

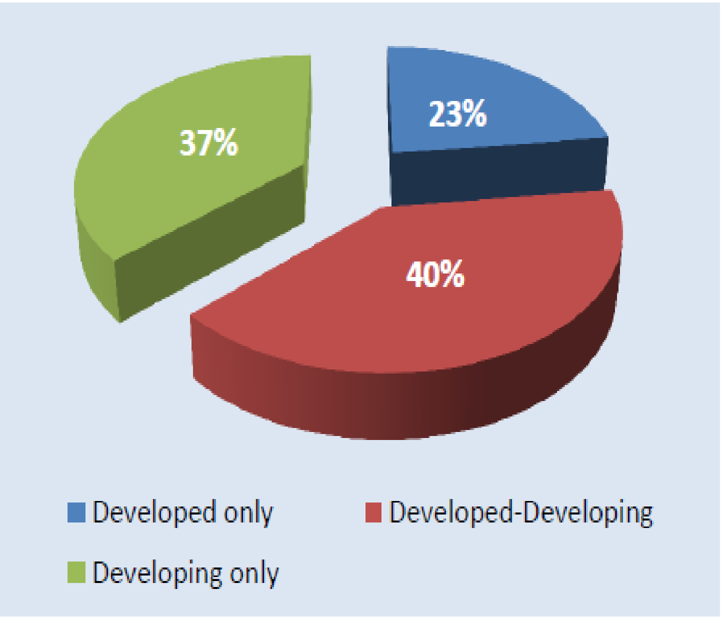


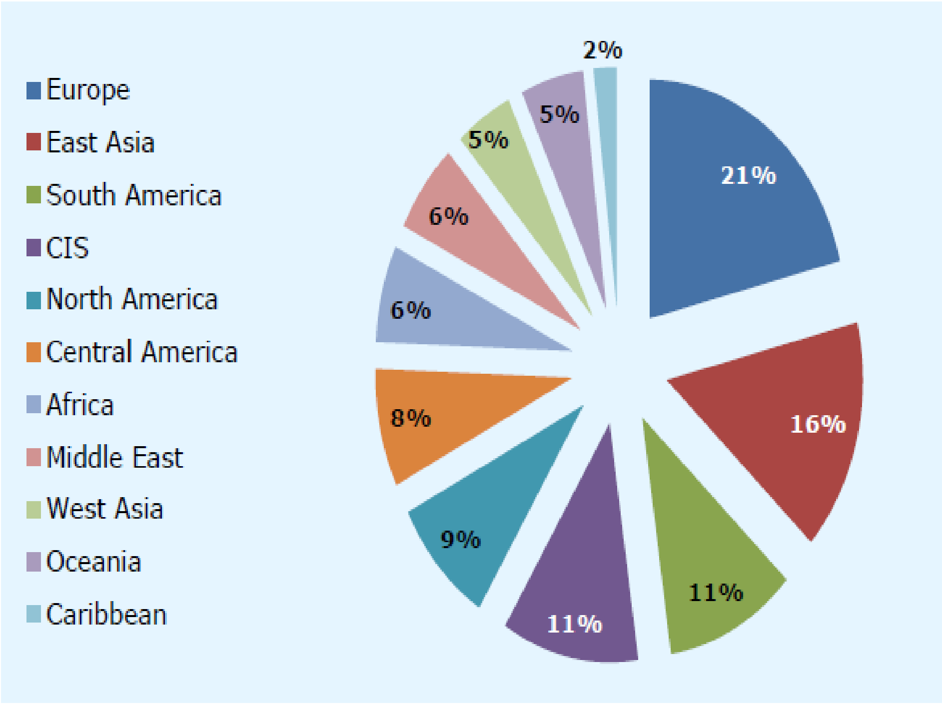
Integration



Membership of RTAs

- RTAs between developed and developing countries rising
- Europe and East Asia are largest users of RTAs





Why Countries Sign FTAs?

- The rise of emerging economies like India and China keen to grow and develop quickly to meet the needs of their aspirational societies
- The need to keep pace with developments in technology and the growing trade complexities
- Growth in global value chains
- Stalled Doha Development Round, putting a question mark on the future of multilateralism
- Regional and bilateral arrangements provide more flexibility to have favorable deals

Economic Reasons of FTAs (1/2)

- **Increase productivit**y: Countries differ in endowment in natural resources, infrastructure, capital availability and human capital accumulation.
- With free trade, countries export goods in which they have comparative advantage
- That leads to 'Economy of scale', increases productivity and reduces average cost of production and thus becomes internationally competitive
- **C**onsumers get 'cafeteria' environment, 'FOC', leads to greater competition and at lower prices
- To meet increasing demand for the goods, more **jobs required and higher level of employment**

Economic Reasons of FTAs (2/2)

- **Expanding market size:** Enables firms to exploit economies of scale and to gain access to markets in partner countries
- **Signalling openness to investors:** A country with a protectionism approach might find it particularly valuable to signal its willingness to shift towards a more liberal and business friendly policy
- **Achieving deeper commitments:** the need for deeper form of integration goes beyond traditional trade (i.e. border) measures such as tariffs.
- This deeper integration may require institutions and policy coordination more easily achieved at the regional level than at multilateral level

Impact of RTAs (1/2)

- Traditionally it was believed that RTAs will generate gains from trade by eliminating trade barriers among member countries
- Viner (1950) showed that the net welfare effect of trade liberalisation on a regional basis was not unambiguously positive
  - RTAs could lead to trade creation or diversion
  - Trade diversion lowers welfare of not only the RTA countries but also that of the rest of the world.
- According to The World Trade Report (2003),

  ‘the welfare effect of RTAs differs for different countries and a general conclusion cannot be drawn’

Impact of RTAs (2/2)

- Both at the theoretical and empirical level, economists are divided over the desirability of RTAs in a multilateral trade regime

- While some see RTA as **“stumbling blocks”,** others support these as **“building blocks**” for the multilateral system as a whole.

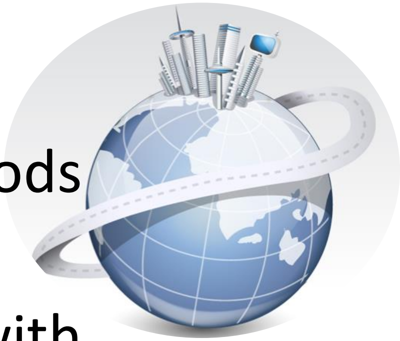
Evolution of FTAs in India (1/3)

- Till mid-1970s, India didn't sign a single bilateral or regional FTA
- In 1975, Asia-Pacific Trade Agreement (Bangkok) signed at the initiative of ESCAP, but with very limited scope. India also signed APTA
- The majority of ***India's earlier FTA were S-S FTAs.***
- In the 1980s and 90s, India's bilateral agreements were with our South Asian neighbours
- The initial FTAs were restricted to trade in goods with a gradual elimination of tariffs (e.g., India-SL FTA).

Evolution of FTAs in India (2/3)

- The major push for FTAs came in 2005
- Post-2005, New FTAs included immediate elimination of tariffs rather than a gradual approach
- New FTAs include substantially all trade (which implies elimination or reduction of 85 percent of tariff lines)
- The latest trend is towards N-S FTAs

Evolution of FTAs in India (3/3)



- India's new FTAs no longer limited to trade in goods but in the form of CECA/CEPA Models
- Some important examples: India's FTAs with Singapore, Malaysia, Japan, Korea and EU.
- India's FTAs (e.g., Japan and EU) include:
  - ➢ Deeper liberalization of services.
  - ➢ WTO-plus issues (rules on investment, government procurement , trade facilitation etc.)
- India's South-South FTAs vastly different in substance from S-S cooperation initiatives of 1970s & 80s
- Difference being new FTAs include strong investment liberalization and protection measures and the agenda is mostly corporate driven.

Strategic Dimension

Apart from commercial interests, there is a long-term strategic agenda to increase India's influence in Asia and the world

> ***"Our approach to regional trade agreements in general, and FTA in particular, has been evolved after careful consideration of our geo-political as well as economic interests."***

-Former *Prime Minister of India, Manmohan Singh*

India & FTAs

- Comprehensive economic agreements concluded with Singapore, Malaysia, Japan and South Korea.
- Several more in the pipeline, including ones with the EU, Australia, New Zealand, Canada and Indonesia.
- As of now, ***India has clinched 15 such trade agreements*** with various countries and regions and a similar number of agreements are in the pipeline.
- India’s trade in goods with its FTA partners was about 39 per cent of the total trade.

India’s Experience with the Bilateral Deals (1/2)

- India not able to sufficiently leverage these agreements to increase its presence in the markets of its partners
- In most cases, the shares of India’s merchandise exports to its partners either stagnated or declined
- The more disconcerting development for India is that the share of manufactured exports in total exports has declined for all partner countries
- In the case of ASEAN, the share of manufactured products in the export basket has declined from over 58 per cent in 2005 to less than 44 per cent in 2018,

India's Experience with the Bilateral Deals (2/2)

- The decline in share of manufactured products in the export basket more pronounced from over 50% to 36% in case of Japan and Singapore during the corresponding period (2005 to 2018);
- India unable to improve market share in its partners' economies, imports from there remained relatively high;
- India's trade deficit with its FTA partners is between two and four times larger than it was a decade ago;
- If the aim of the bilateral strategy was to boost the Indian export sector, then it has failed.

Has India Benefited from Bilateral Deals?

"Business and industry have failed to fully exploit the potential of the FTAs signed by India in terms of market access opportunities, while the enterprises from the partner countries have strengthened their presence in the Indian market. Therefore, the net impact would seem to be unfavourable to India".

- benefit India's exports, in some cases the Benefits to the partner countries from FTAs with India are much greater
- Inverted duty structure for Domestic industry in India makes local products less competitive compared to imported ones.

India- Korea CEPA

- The Comprehensive Economic Partnership Agreement (CEPA), Korea's first free trade agreement with a member of the BRICS nations
- Korea and India have signed the CEPA on 7 August 2009 and became operational from 1 January 2010
- The CEPA with South Korea technically differs from an FTA in the sense that the tariffs would be lowered in phases.
- Both the countries are bound, as per the agreement, to lower their tariffs by '*85 to 90% of the goods traded between the two countries over the course of a decade.*'
- Under the deal, bilateral trade between the two countries have grown from US$12 billion in 2010 to US$21.5 billion in 2018, a growth rate of more than 75 percent.

India-Korea Trade (1/2)

- India : Korea's 8th biggest export destination
- with the former's outbound shipment to the latter amounting to only about $12 billion in 2017,
- Korean exports moved up the value chain from primary goods to light industrial products, to heavy industrial and to high-tech and knowledge-based products.
- India faces Korea's restrictive policy towards import of primary agricultural products such as fruits and vegetables.
- Need for diversification of the export products which at present are driven overwhelmingly by petrochemical products, mainly Naphtha

India-Korea Trade (2/2)

- Naphtha accounts for more than half of India's total exports to Korea
- Korean exports to India almost doubled during the last 6 years
- while Korea's imports from India have risen by 50% during the same period.
- Share of Indian exports to Korea has been lesser than the imports from Korea.

CEPA and Performance (1/2)

- In 1st year of CEPA : Bilateral trade between India and Korea increased by 40% to over US $17.57 billion
- Indian exports rose by 37% in 2010 while Korean exports increased by 42.7%
- In 2nd year: bilateral trade :US$ 20.57 billion, a growth of 20.28%
- In 3rd year: The bilateral trade has gone down to US$18.84bn. The main reason for fall in Korean export growth was the steep drop in ship sales
- In 4th year: South Korea's imports from India dropped 10.7% to US$6.2 billion, due to the depreciation of Indian rupee and unstable economic climate

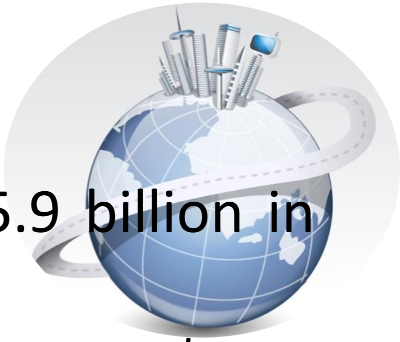
CEPA and Performance (2/2)

- **Based on Revealed Comparative Advantage** - Indian group of basic metal products has become advantaged group post CEPA. Textiles and rubber groups showed improvements in their competitiveness and non-ferrous metal group has shown a decline in their competitiveness.
- For Korea the group of general machinery firms has become advantaged group post CEPA. Relative advantage of electronic equipment has increased
- India's trade deficit with Korea increased to about US$8 billion in 2014, from US$5 billion after the CEPA went into effect in January 2010.
- In 2017, India's trade deficit with Korea touched almost US$ 10.5 billion

India- Japan (1/2)

- The CEPA between India and Japan signed on 16th February, 2011
- came into force from 1st August, 2011
- the deal aimed to eliminate tariffs on 90 percent of Japanese exports to India, such as auto parts and electric appliances, and 97 percent of imports from India, including agricultural and fisheries products, until 2021
- In 2015-16, India's exports to Japan were US$ 4.66 billion while imports were US$ 9.85 billion.
- In 2016-17, India's exports further fell by 17.38% to US$3.85 billion and imports by 2.2% to US$9.63 billion.

India- Japan (2/2)



- India’s trade deficit with Japan widened to US$5.9 billion in 2016-17 against US$ 2.7 billion in 2013-14
- Exports from India to Japan in 2012-13 stood at US$6.10 billion, down from US$6.33 billion in 2011-12
- India's trade with Japan fell 16% in four years from 2013-14 to 2016-17
- Japan is now the third largest source of FDI into India.
- Japanese FDI into India has mainly been in automobile, electrical equipment, telecommunications, chemical and pharmaceutical sectors.

Before we move to ‘Quiz’

Any Comment/Suggestion/Queries

Quiz (1/3)

Quiz Question-1

The theory of Trade Creation and Trade Diversion was formulated by

a. Jacob Viner

b. David Winer

c. David Ricado

d. Suraj Jacob

Quiz (2/3)

Quiz Question-2

India has CEPA with which of the following country(ies)?

a. Korea Only
b. Japan and Korea
c. Japan, Singapore and Korea
d. Japan Only

Quiz (3/3)

Quiz Question-3

What is CEPA?

a) Comprehensive Economic Partnership Agreement

b) Comprehensive Economic Partnership Arrangement

c) Central Economic Partnership Arrangement

d) None of the above

References

1. Cote, Kyle Robert and Jena, Purna Chandra (2015), CUTS International, ‘India's FTAs and RCEP Negotiations’, Jaipur (Discussion paper) https://cutscitee.org/pdf/Indias_FTAs_and_RCEP_Negotiations.pdf
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Thank you